AUDIT QUALITY AND TRANSPARENCY

August 2020

CohnReznick

ADVISORY • ASSURANCE • TAX

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A MESSAGE FROM LEADERSHIP

Welcome to the 2020 edition of CohnReznick's Audit Quality and Transparency Report. This publication finds us in the middle of an unprecedented year, from the widespread hardships and disruptions of the coronavirus pandemic – including the delay of this report, pushed from April as we worked to assist our clients in managing the impact of the economic downturn. As we adapt to these changing times, we are optimistic about things to come, and about the continued opportunities we have to better serve our clients and the capital markets sector through quality, innovation, and collaboration. We continue to strive to attract diverse talent, to provide our people with development opportunities, and to help strengthen communities in any ways we can.

While we continue to strategically think about the years ahead, we also believe it is important to reflect on the years behind us, and to recognize that we as a firm are no strangers to navigating change. In 2019, we celebrated the 100-year anniversary of our founding, a significant milestone we are proud of. Our firm was founded in the same year that the Treaty of Versailles was signed to end World War I and that the 19th Amendment was passed, paving the way for women's voting rights. While so many things have changed since 1919, the past century has provided us with 100 years of experience and success to build upon.

Our people and culture are what make CohnReznick a leading advisory, assurance, and tax firm. We continue to invest in our people and culture because we believe our people and their sense of purpose will guide the firm and our clients to continued success over the next 100 years. Following are some key examples of how we reinvest in our people and culture:

- **New audit methodology and audit software solution –** We are making investments to maximize audit quality and efficiency by implementing a new audit methodology and software solution. These changes are the foundation upon which we are building the Audit of the Future.
- **Developing our people –** We provide our people with opportunities to learn and develop through a combination of on-the-job training and formal training programs (e.g., technical accounting and auditing areas, leadership, professional skills, project management, and industry-specific). Our people receive timely feedback and coaching, and we foster a diverse and inclusive culture of collaboration by, among other things, operating under a flexible workplace strategy. An example of our commitment to the development of our people is our recent investment in a new learning management system.
- **Diversity, equity, and inclusion –** We embrace our responsibility to advance diversity, equity, and inclusion as an employer and through our industry influence. Our local and national DEI Councils turn our values into action, continuously developing, implementing, and refining initiatives that improve diversity, equity, and inclusion with respect to matters such as talent development, supplier diversity, leadership, growth, and accountability.
- **Building the CohnReznick Audit of the Future –** The pace of technological change could accelerate to unprecedented rates and will likely have a significant impact on auditors. We continue to actively identify, test, and, when appropriate, implement new tools, processes, and procedures that improve audit quality while enhancing efficiency. The Audit of the Future Champions Committee, which is a group of emerging leaders from offices throughout the firm, has been created to facilitate our implementation of the Audit of the Future by ensuring effective execution throughout the Assurance practice. We not only have a history of using innovative technology, we also continuously seek out and implement new ways of serving our clients. We take a bottom-up approach to identifying and developing innovative solutions, and encourage our professionals to embrace our culture of innovation.

We are excited to present you with the 2020 edition of CohnReznick's Audit Quality and Transparency Report. This report provides information about our ongoing commitments, efforts, and vision; qualitative and measurable data points about our transparency; how our quality control system is designed to enable us to deliver high-quality services; and an idea as to where our firm is headed. This report aligns with the Center for Audit Quality's Audit Quality Disclosure Framework and demonstrates our commitment to maintaining a strong system of controls to achieve the highest quality audits.

David Kessler
Chief Executive Officer
CohnReznick LLP

Robert Hilbert
Managing Partner - Assurance
CohnReznick LLP

CELEBRATING 100 YEARS

MOVING FORWARD. GIVING BACK.

Moving Forward

1. 1919: Julius H. Cohn opens Cohn & Company in Kinney Building, Newark, NJ **2. 1943:** Marjorie Gilbert joins firm as its first female accountant **3. 1986:** President Reagan signs legislation creating the low-income housing tax credit; affordable housing practice created shortly thereafter **4. 1987:** CohnReznick begins tenure as AICPA auditor **5. 2005:** Firm establishes significant Sarbanes-Oxley practice (75 clients; 150 practitioners) **6. 2006:** International expansion begins leading to subsidiaries in India, Australia, Hong Kong, The Netherlands **7. 2007:** Firm launches national renewable energy practice, one of the first in our industry **8. 2012:** J.H. Cohn and Reznick Group combine to create top national accounting firm

Giving Back

9. 1957: Julius and Bessie Cohn Leadership Award for Community Service established; forerunner to today's CohnReznick Foundation **10. 2006:** Mississippi office established (staff of 350) to administer Mississippi Homeowner Assistance Program post-Hurricane Katrina **11. 2007:** Pay it Forward program launched **12. 2012:** Programs supporting women in the workplace created (WomenCAN, Executive Women's Forum) **13. 2013:** CohnReznick CARES launched **14. 2016:** Firm establishes Diversity & Inclusion Council **15. 2018:** Employees give back during CohnReznick CARES Day

STRUCTURE, OWNERSHIP, AND GOVERNING BODY

Our mission and vision

Since Julius H. Cohn founded Cohn & Company in Newark, N.J., in 1919, CohnReznick LLP has flourished to become a leading advisory, assurance, and tax firm in the U.S. We are now headquartered in New York City, with more than 3,000 team members. The firm has 19 offices across 11 states and global subsidiaries in George Town, Cayman Islands; Chennai, India; Hong Kong, China; Sydney, Australia; The Hague, The Netherlands; and Canada. CohnReznick is a member of Nexia International, the ninth largest network of independent accounting and consulting firms in the world. Our national and international presence effectively mobilizes our professionals to serve our clients on a local, regional, and international basis.

Our top priority is to deliver high-quality services to our clients in an era of rapid changes: changing accounting standards, business environments, technology and innovations, and regulatory requirements. We are committed to our important role in the capital markets and delivering high-quality services. We aim to provide our clients with confidence in their accurate, objective, and compliant financial reporting while helping them maintain transparency, manage risks, and provide valuable information to users of their financial statements.

Our sense of purpose

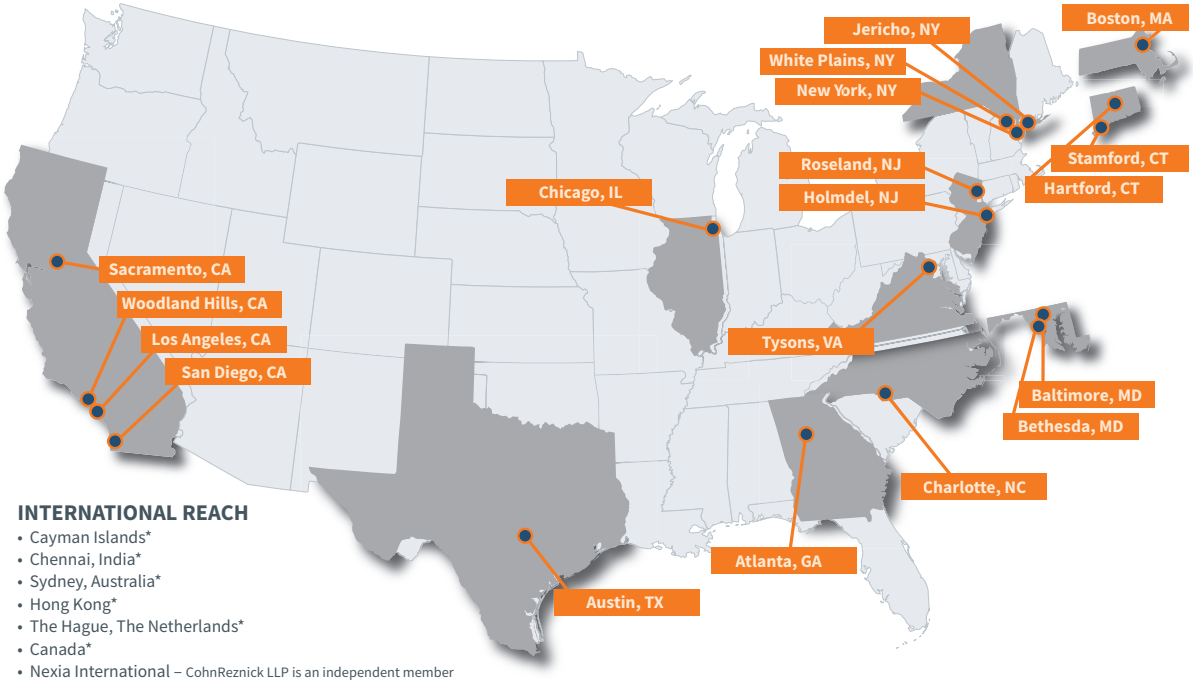
In May 2019, the firm launched our Sense of Purpose Competition to generate ideas and to create conversations about why our firm exists, who we are, and what we stand for. Based on all of the innovative, creative, and original ideas we received from our stakeholders, we chose the following three concepts as our Sense of Purpose: *Creating opportunities for our people, Making a difference for our clients, and Strengthening our communities.*

1. Creating opportunities for our people

- Entrepreneurial career paths among a multitude of industries
- Culture that develops leaders
- Commitment to diversity and inclusion
- Support of workplace flexibility

2. Making a difference for our clients

- Forward thinking, comprehensive solutions
- Invaluable services delivered through industry expertise
- Serving as trusted advisors throughout our advisory and tax services
- Investments in innovation and technology



INTERNATIONAL REACH

- Cayman Islands*
- Chennai, India*
- Sydney, Australia*
- Hong Kong*
- The Hague, The Netherlands*
- Canada*
- Nexia International – CohnReznick LLP is an independent member of Nexia International – the 9th largest provider of assurance, tax, and advisory services in the world, operating in over 122 countries.

*Foreign subsidiary of CohnReznick LLP.

3. Strengthening our communities

- Culture of giving back since 1919
- National and local impact through CohnReznick Foundation and CohnReznick CARES
- Expertise and involvement that help transform communities: New Markets Tax Credits, affordable housing, historic tax credits, renewable energy, disaster recovery, public-private partnerships, and opportunity zones
- Bringing our communities together through Executive Women's Forum and other diversity and inclusion initiatives

Our organizational structure and business

Our firm is structured as a limited liability partnership. As of October 31, 2019, we had more than 3,000 team members, including 265 partners and principals. To operate, manage, and serve our diverse range of clients, our managing partners and principals oversee three functions: practice areas that match service offerings, geographic regions, and industry segments (see right).

The three regional managing partners are supported by 11 office managing partners (OMPs), who reside in their respective regions. The OMPs oversee the delivery of services in their offices, which includes staffing, hiring, and day-to-day operations of the office. Individual partners and principals report to the OMPs within their office. The five industry managing partners and principals are supported by sub-industry leaders of related industries who are also partners and principals.

PRACTICE LEADERS

Claudine M. Cohen	Managing Principal - Transactions & Turnaround Advisory
Keith Denham	Managing Principal - Advisory
Patrick Duffany	Managing Partner - Tax
Robert Hilbert	Managing Partner - Assurance

REGIONAL MANAGING PARTNERS

George Klenovich	Regional Managing Partner - South/West
Mike Micholas	Regional Managing Partner - Mid-Atlantic
Alan Wolfson	Regional Managing Partner - Northeast

INDUSTRY MANAGING PARTNERS/PRINCIPALS

Frank Banda	Managing Partner - Public Sector
Alex Castelli	Managing Partner - Emerging Markets
Cindy McLoughlin	Managing Partner - Consumer, Hospitality, and Manufacturing
Jeremy Swan	Managing Principal - Financial Sponsors and Financial Services
Ira Weinstein	Managing Principal - Real Estate and Cannabis

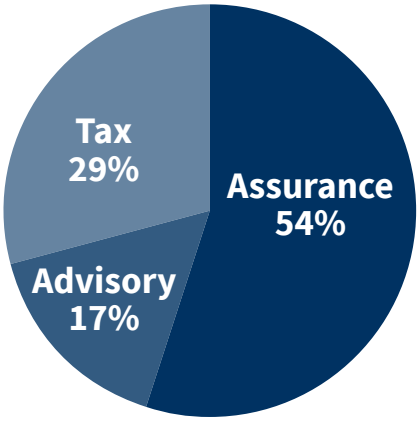
PROFESSIONAL HEAD COUNT

	FIRM		ASSURANCE	
	10/31/2019	10/31/2018	10/31/2019	10/31/2018
Partners and principals	265	247	149	141
Directors	149	144	45	44
Senior managers	282	265	137	129
Managers	303	302	127	133
Seniors	619	578	332	302
Staff	558	534	327	307
Total	**2,176**	**2,070**	**1,117**	**1,056**

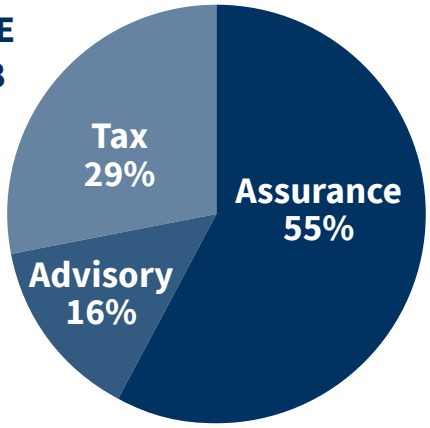
**The table above only includes team members with the listed titles.*

Assurance, advisory, and tax services accounted for 54%, 17%, and 29% of our revenue, respectively, for the fiscal year ended January 31, 2019, and 55%, 16%, and 29% of our revenue, respectively, for the fiscal year ended January 31, 2018.

REVENUE FYE 2019



REVENUE FYE 2018



Our leadership and governance

The firm is led by our CEO, David Kessler, and the national senior leadership team listed below. The firm is governed by our 11-member Executive Board, which includes our CEO, general counsel, and chief operating officer. Partners vote to elect Executive Board members for a three-year term.

Our Executive Board members represent a variety of offices, industries, and practice areas. Pursuant to the terms of the partnership agreement, the Executive Board is responsible for setting the firm's long-term strategy, performance goals, and business plans, as well as assessing major transactions that may impact the firm and its direction.

SENIOR LEADERSHIP

Bob Bushey	Chief Information Officer
Carolyn D'Anna	Chief Human Resources Officer
Michelle Fleishman	General Counsel and Chief Risk Officer
Tama Huang	Chief Innovation Officer
Leonard Korn	Chief Financial Officer
Risa Lavine	Chief of Staff
Gary Levy	Chief Strategy and Growth Officer
Philip Mandel	Chief Operating Officer

EXECUTIVE BOARD MEMBERS

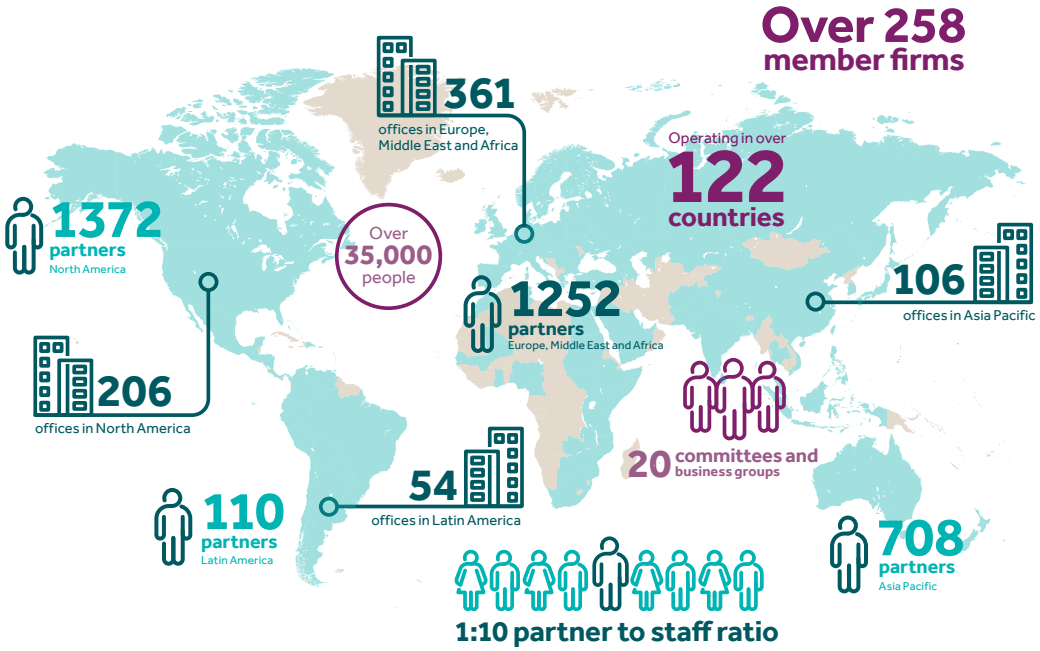
Claudine M. Cohen	Managing Principal, Transactions & Turnaround Advisory
David Kessler	Chief Executive Officer
Philip Mandel	Chief Operating Officer
James P. Martinko	Office Managing Partner - Bethesda, MD
Mike Monahan	Office Managing Partner - Long Island, NY
Brian Newman	Practice Leader, Federal Tax Services
Sheslie Royster	Partner, Tax
Kristen Soles	Practice Leader, Government Contracting
Ira Weinstein	Managing Principal, Real Estate and Cannabis
Alan Wolfson	Regional Managing Partner - Northeast
Michelle Fleishman*	General Counsel and Chief Risk Officer

**Ex-Officio*

Affiliations

Nexia International

We are a member of Nexia International, which in 2019 had revenue of more than $4.3 billion and operated through 727 offices and more than 258 member firms in over 122 countries. Through this relationship, we extend our services to international enterprises, accessing more than 35,000 people, who are familiar with the cultural foundations and market conditions in their respective countries.



Other affiliates

Serving our clients on a global, national, regional, and private level requires us to be nimble and responsive to their changing needs – at times bringing in specialized resources to augment our advisory, assurance, and tax services. These affiliations with independent companies share our values and support our effort.

CohnReznick Benefits Consultants is a leading benefits and insurance consulting firm that helps companies implement health and welfare, retirement, and executive compensation programs with the goal of improving employee engagement and minimizing costs.

CohnReznick Wealth Management LLC is a registered investment advisor that provides comprehensive asset management services including strategic financial planning and investment strategy reviews through relationships with investment managers and a range of customized insurance programs.

CohnReznick UIC Consultants LLC is an independent risk management consulting firm providing insurance and risk management services to help clients improve their structure and coverage and reduce the cost of their risk insurance programs.

CohnReznick Real Estate LLC is a full-service commercial real estate transaction and advisory firm, providing services across sectors including industrial, office, healthcare, sports complexes, and multifamily residential.

CohnReznick Capital Markets Securities LLC (CohnReznick Capital) is a broker-dealer registered with the Securities and Exchange Commission (SEC) that provides a range of investment banking services, specializing in renewable energy, middle-market mergers and acquisitions, and special situations.

WJ Technologies LLC provides accounting system solutions and services to government contractors and commercial project-based businesses nationwide, offering solutions to create operational efficiencies.

CohnReznick Realty Capital Advisors, LLC serves as an equity placement agent and financial advisor that focuses on the capital needs of multifamily owner/operators, with an emphasis on affordable and workforce housing. Owner/operators are matched with institutional investors based on their strategic needs involving equity capital.

LEADERSHIP RESPONSIBILITIES AND CULTURE

Tone at the top

Audit quality is our top priority. Without quality, our reputation and role in serving the capital markets would be untenable. The importance of audit quality is communicated from the top by requiring our professionals to exercise professional judgment and skepticism and apply technical proficiency to comply with auditing standards. Our senior, regional, and local leaders; individual partners; and Quality Network (see page 19) model these attributes, cascade this message throughout the firm, and hold our professionals accountable for following these standards.

In February 2020, the firm kicked off the "Audit Quality Matters" initiative to reinforce the importance of audit quality and provide infrastructure to sustain audit quality, and launched a goal to increase the "service and quality" element rating of our 2019 employee survey to the highest level over the next three years.

Audit Quality Matters is a multifaceted, multiyear program that is integrated and intertwines between each of the seven elements of the program, including enhanced "tone at the top" communication, accountability framework, and an audit milestone program.

Leadership responsibilities

A focus on quality underlies the actions and goals of our firm and its people. Accordingly, the leadership team works to instill and foster this value in all our professionals, contributing to a strong culture of quality. Our people embrace this standard through acting with integrity, objectivity, and professional skepticism.

Our leadership team communicates and reinforces these messages in various forms, including written communications, monthly meetings with the Assurance practice, office road shows, industry training, and daily exchanges.

Office and regional leaders also emphasize the importance of quality and adherence to our system of quality controls through monthly meetings and daily interactions. This encourages our professionals to hold one another accountable for quality, which is paramount to the success of our firm. There are no shortcuts to doing what is right, and we reinforce this every day.

Culture

The seven core values of PYRAMID serve as a moral compass for CohnReznick in our interactions with our clients, colleagues, and communities. The following core values drive our culture:

Passion for Excellence

- We rally and inspire our teams toward a common purpose
- We are committed to delivering outstanding client service
- We demand the best of ourselves and others
- A promise made is a promise kept

Yearning for Knowledge

- We are committed to technical excellence and thought leadership in the industries we serve
- We proactively seek opportunities for learning and generously mentor and develop others on our teams
- We are committed to understanding the firm's differentiators, comprehensive services, and industry expertise

Respect for Others

- We are one firm with a singular purpose that supports the diversity of backgrounds and ideas that makes us successful
- We listen to and seek out the ideas of our people
- We provide direct and constructive feedback driven by a sincere commitment to each individual's learning and growth
- We understand and respect the necessary balance between our professional and personal lives

Adaptability and Flexibility

- We are committed to teamwork and jumping in when and where we are needed
- We are always willing to learn and do new things
- We pride ourselves on seeing what needs to happen and then making it happen
- We embrace change as opportunity for advancement of our careers, our firm, and our clients

Making a Difference

- We lead by example, giving back to the communities in which we live and work
- We freely volunteer our time, talent, and energies
- We are founded on the belief that if you do your best for your clients, your people, and your community, everything else falls into place

Integrity, Reliability, and Trust

- We conduct ourselves with objectivity, independence, and accountability
- We deliver on our commitments to our clients and our people
- We are uncompromising in following through with what is right and best
- We will be highly accessible to our clients and fellow employees

Developing Opportunities

- We strive to create tomorrow's opportunities today
- We are committed to fostering deep industry knowledge that drives value for our clients
- We will challenge ourselves to think differently to better identify opportunities for our client, our firm's and our people's success.

Embedded in our PYRAMID values is the commitment to conduct ourselves with objectivity, independence, and accountability; follow through on what is right without compromise; pursue technical excellence steadfastly; and deliver on our responsibilities to our clients and our people.

INDEPENDENCE, ETHICAL REQUIREMENTS, AND COMPLIANCE WITH REGULATORY REQUIREMENTS

Compliance with applicable independence rules is the foundation of providing services to our clients and serving capital markets. The managing partner of Assurance is ultimately responsible for overseeing and monitoring independence policies, procedures, related consultations, training, and compliance. Designated professionals in the Audit Quality group (see page 19), who possess extensive independence compliance experience, are responsible for developing training; maintaining independence policies, processes, and systems; and serving daily as a resource for our professionals when questions arise. The assurance engagement partner is responsible for evaluating independence compliance with all attest and non-attest services provided to his or her clients and their affiliates. All partners and principals are responsible for evaluating conflicts of interest with our clients. Each partner and professional is responsible for his or her independence from our clients. The firm uses the following three-tiered system to support compliance with existing independence rules and monitoring of our independence compliance: Firm-provided Foundation, Evidence of Compliance, and Monitoring.

Independence

FIRM-PROVIDED FOUNDATION

Independence manual

Our independence manual outlines the firm's policies and procedures and assists our professionals in complying with the applicable independence rules promulgated by the SEC and the American Institute of Certified Public Accountants (AICPA), other standards setters such as the Public Company Accounting Oversight Board (PCAOB), the Department of Labor, the Employee Retirement Income Security Act (ERISA), and the Government Accountability Office. Our independence manual is available on our intranet site and is periodically updated to comply with the most current independence rules.

Restricted entity list

We maintain a database of entities for which we perform attest services, including affiliated entities of these clients. The firm recently created a searchable electronic database of restricted entities, which will assist our partners and professionals in complying with our independence and conflict of interest policies.

Training

Independence topics are a recurring agenda item discussed during our monthly assurance and risk webcast, as well as our quarterly SEC updates. In addition, our independence policies and requirements are emphasized during new hire and career milestone training programs.

Other tools

Independence-related inquiries can be submitted through an online form and are monitored by designated professionals in our Audit Quality group, who assist other professionals in complying with required independence rules. During the new-client proposal process, we utilize our billing and timekeeping system to determine which services, if any, have been previously provided to these prospective clients and affiliates. We also circulate conflict-check emails to all employees to identify any potential threats to independence and conflicts of interest. In addition, our opportunity tracking and client acceptance tool, Client Experience Platform (CXP), is used to track and document whether potential threats to independence and conflicts of interest were properly evaluated.

EVIDENCE OF COMPLIANCE

Independence confirmations

All partners and professionals are required to review the restricted entity database at the time of hire and annually thereafter. A completed electronic representation is required to affirm their compliance with our independence policies, including identifying any known circumstances that may potentially threaten independence. Designated professionals in the Audit Quality group follow up with these potential threats self-identified by our partners and professionals to support compliance with independence rules.

Consultations

We strongly encourage our partners and professionals to consult with our designated professionals in the Audit Quality group about any independence-related questions. Our independence manual describes certain complex situations that require professional personnel to consult with our designated professionals in the Audit Quality group to help appropriately assess potential threats to independence and conflicts of interest.

Independence forms — engagement level

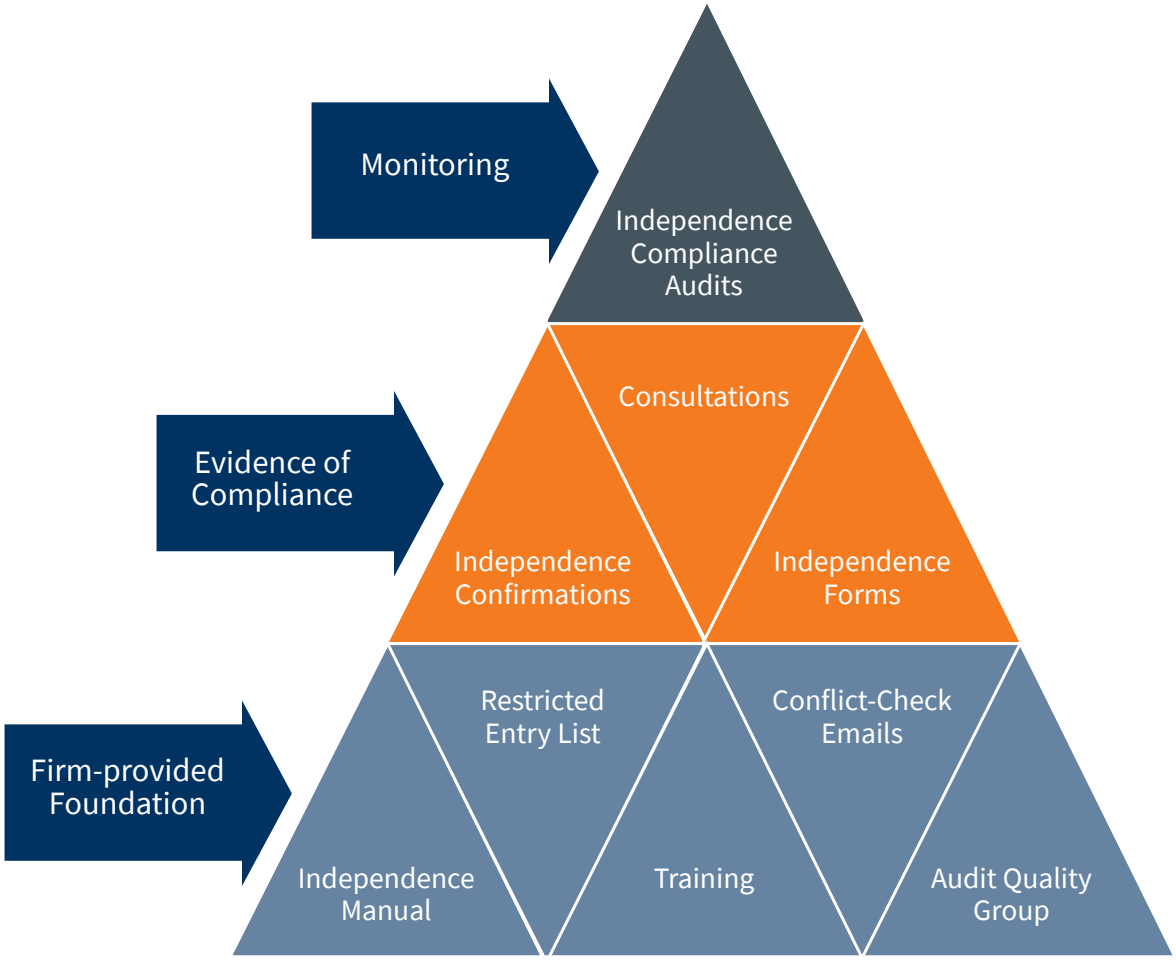
We utilize standardized engagement independence evaluation and client acceptance and continuance forms to assess and evidence our independence compliance with our attest clients. We archive these forms within each engagement file. The forms are subject to selection for monitoring by our in-house inspection program and SEC in-flight review program (see page 25).

MONITORING

Independence compliance audits

Annually, the completeness and accuracy of the independence confirmations submitted by our partners and professionals is tested. In this process, partners and professionals from all service lines are randomly selected, and an outside third party validates the assertions of the selected partners and professionals regarding the nature of their investment holdings. Any discrepancies are promptly addressed by the firm's managing partner of Assurance or his designee. During the most recent independence compliance audits, approximately 2% of the firm's partners and professionals were selected, which is consistent with prior periods.

Regarding engagement-level independence compliance, our annual in-house inspection and SEC in-flight review programs (see page 25) monitor whether selected engagements evaluated and retained appropriate documentation to evidence our independence assessment of those clients.



Ethical Requirements

We take our effort to serve the public interest, honor the public trust, and demonstrate our commitment to the highest professional standards very seriously. We maintain strong ethical principles to remain objective at all times. Our partners and professionals are required to act with integrity and in accordance with the relevant ethical requirements of the AICPA, as outlined in the Code of Professional Conduct, the PCAOB's Ethics and Independence Rules, the various state boards of accountancy, state CPA societies, and, when applicable, ethical requirements included in the Government Auditing Standards and other regulatory standards.

The firm's requirements for partners and professionals regarding ethics and compliance with standards are described in our Quality Control Document. During the firm's onboarding process, partners and professionals are required to read and acknowledge the content of this document. We informally and formally communicate to our partners and professionals the importance of demonstrating ethical behavior and conforming to the highest level of integrity. Our managing partner of Assurance and chief risk officer are responsible for administering disciplinary action if a policy violation is identified.

Conflicts of interest and conflict-check emails

Partners and professionals in all service lines must understand the concepts of actual and potential conflicts of interest and proactively identify them when a business opportunity arises, so that we can resolve, manage, or avoid the conflicts in a timely manner. Conflict-check emails are part of our firmwide system to alert our partners and employees of new client opportunities and involved parties and leadership names so that anyone affected can self-report actual and potential conflicts of interest to the Office of General Counsel, the managing partner of Assurance, or their designees. This system helps the firm pursue opportunities that are free from conflicts of interest and places appropriate safeguards on acceptance of the opportunities.

Code of conduct

Our partners and professionals are expected to uphold high ethical and integrity standards. Our code of conduct policy is posted on our intranet site and reviewed by employees upon hiring. It covers topics such as independence, avoidance of conflicts, maintenance of confidentiality, computer usage, anti-harassment, and compliance with laws and regulations. The policy discusses not only professionals' actions and business conduct, but also matters relating to our clients, the firm, and the professional conduct of partners.

Compliance with regulatory requirements, including licensing

To serve our clients nationwide, we maintain public accounting firm licenses as required by state accountancy laws and/or utilize firm mobility and practice privileges where permitted. Our Office of General Counsel, with assistance from others if deemed necessary, is responsible for reviewing licensing requirements for every state where we practice public accountancy. We regularly review our licensing requirements to check our compliance with state accountancy laws.

As discussed on page 13, our Learning and Development department provides our partners and professionals with numerous tailored and appropriate programs as continuing professional education (CPE) to meet both internal and external requirements. In addition, our Learning and Development department monitors each individual's CPA licensing to determine whether our partners and professionals are meeting the CPE requirements established by respective state jurisdictions. Our partners and professionals' CPE records are maintained in an online database, and automated notifications are periodically sent regarding progress in meeting annual CPE requirements. Based on system-generated reports, we follow up with partners and professionals to support timely completion of CPE. These reports are reviewed and elevated to various leaders, including the managing partner of Assurance, in the event of discrepancies.

TALENT

Our professionals are our most important asset. In our talent management system, we aim to establish policies and procedures not only to comply with relevant standards and other regulatory and legal requirements, but also to ensure that we attract and retain high-performing talent in our Assurance practice. Our talent management system of quality control not only encompasses hiring, assignment of professionals to engagements, professional development, and advancement activities, but also includes goal-setting and mentoring, retention and workplace strategy, engagement surveys, and diversity and inclusion activities. We continuously reinforce the critical importance of providing high-quality work to our clients. Our system reasonably ensures that partners and professionals are experienced, competent, objective, ethical, and technically trained to provide quality assurance engagements to our clients.

Our strategic plan is to develop future leaders by attracting, developing, and retaining high-performing professionals. Our People and Culture department is committed to establishing infrastructures that support our professionals, empowering them to achieve their potential.

The continuing success of the firm's Audit of the Future (see page 26) depends on our people, who must be agile, resilient, analytical, and comfortable with changes and technologies. We aim to hire and retain professionals who can deliver high-quality assurance services and help lead the firm into embodying the Audit of the Future.

Recruitment and hiring

Building a successful future for our firm and our culture begins with recruiting top talent. As a firm, we have designated recruiting teams, the campus recruiting team and the experienced recruiting team, which have tailored programs to recruit and hire candidates from those two distinguished pools. We use a rigorous recruitment process to identify candidates who possess the necessary skills and capabilities to execute high-quality assurance services. We vet all candidates not only to validate their academic records, professional licensure, work experience, and references, but also to gauge their integrity before offering employment. Once an offer is accepted, an independent third party validates the information provided by the candidate as part of a background check.

To build a robust pipeline of talent, our dedicated campus recruiting team, composed of the same team members from the previous year, attended approximately 80 college events nationwide during 2019. These events included career fairs, meet and greets, Beta Alpha Psi presentations, and campus interviews designed to cultivate connections with students early in their academic careers. In 2019, we also utilized a digital platform to attract possible candidates studying at 800 colleges nationwide and increase our visibility, brand recognition, and candidate diversity. The firm has two distinct programs to enhance these relationships: an early identification program (Breakthrough Program) and an internship program.

Our Breakthrough Program is designed to recognize, attract, and recruit future interns. The two-day summer leadership program is offered to high-performing juniors and seniors in a five-year graduate-level accounting program so that they can learn about career opportunities in public accounting. During the highly interactive program, students get an insider's view of our firm culture and what it means to be part of CohnReznick while receiving valuable career information and participating in networking and professional skills development. In 2019, we hosted 12 Breakthrough Programs across our offices with a total of approximately 250 students attending.

In 2019, our internship program was named for the third year in a row to the WayUp Top 100 Internship Programs, which was voted by more than 100,000 interns from companies across the U.S. Our interns are assigned projects on real client engagements across various industries, receive real-time feedback, and experience what a career at CohnReznick would look like. In addition, we provide interns with professional development opportunities through learning modules designed to bring to life CohnReznick's values and showcase how those values apply to interns' everyday lives.

Our dedicated recruiting team for experienced professionals identifies and recruits candidates with diverse backgrounds, technical expertise, and the integrity and aspirations to become our future leaders. We use various channels to recruit experienced professionals. This includes an external referral program, to recruit candidates from our current employees' professional networks, and the internal mobility program, which offers opportunities for relocation to retain top talent. For the fiscal years ended 2019 and 2018, 36% and 24% of our experienced hire professionals, respectively, were recruited from the two programs.

Assignment of engagement teams

Our partners have a proven track record of technical excellence, are well-versed in their industries, and are committed to developing our professionals and executing high-quality assurance services. Periodically, a committee of partners assesses the competencies and capabilities of engagement partners to determine whether engagements are being performed in accordance with professional standards and applicable legal and regulatory requirements, and that relevant reports are being issued.

Our policies and procedures guide us in appropriately assigning professionals to specific engagements. While the lead audit engagement partner or director with signing authority is ultimately responsible for assigning appropriate staff to their engagement, office managing partners, in consultation with People and Culture, monitor that the assignment is adequate. When assigning a professional to an engagement, we first consider the necessary industry expertise required, because the risks and complexity of our work are significantly impacted by the client's industry. Most of our professional staff are also assigned to a few industry groups so that they develop expertise in these industries and obtain the necessary industry training specific to their assigned industries. We also assess several other factors, including the characteristics of the client, the type of service being performed, the availability of our staff, and the necessary knowledge, skills, and abilities to perform the attestation engagement. Guidelines are provided to our partners and professionals regarding when to assign firm specialists in areas such as information technology, tax, and valuation.

Education and professional development

For the continued professional growth and development of our partners and professionals, we provide extensive learning and development opportunities through on-the-job training, timely feedback and coaching, and formal training programs in areas including technical accounting and auditing, leadership, professional skills, project management, and industries.

At least annually, we assess our curriculum to identify new program needs and necessary revisions. Our National Office, in consultation with the Learning and Development department, develops and approves professional development curriculum based on inspection findings and observations within the National Office, as well as changes in professional standards. To refine our professional development curriculum, we also evaluate feedback from regional and industry leaders and focus groups, course evaluations, and follow-up surveys from auditors practicing in the field.

Course curricula are designed for and recommended to professionals based on their roles and industry expertise. We monitor attendance and may use polling questions to effectively deliver the technical training courses.

In 2019, we established and provided formal industry training for all levels, enabling our people to better focus on industry-specific accounting and auditing topics. We continue to provide milestone programs for new hires and new seniors regionally and new managers nationally to provide the tools and knowledge needed for our professionals to become well-rounded accountants and to develop their teams to reach the next level.

The firm has also continued its National Assurance Instructor Program (NAIP). NAIP instructors are partners, directors, senior managers, and managers who have completed a rigorous firmwide instructor development program and have committed to a minimum of two years to instruct training programs nationally. This effort helps us provide a consistent learning curriculum across the offices that is led by nationally certified and qualified instructors.

We have two distinct leadership programs: The Emerging Leader Program (ELP) and the Individual Development Track (IDT). The ELP is a two-year program for experienced managers who have demonstrated their ability to advance to leadership positions through knowledge and skills in developing people and business. The IDT is a highly customized development experience for identified potential partner candidates.

Our audit professionals obtain at least 20 hours of continuing professional education each year and at least 120 hours over a three-year period. Of these hours, eight hours each year and 48 hours over a three-year period (or 40% total) must cover technical subjects relating to accounting and auditing. This requirement equals or exceeds state CPE requirements (see page 11 for our CPE compliance procedures). Professionals who are subject to other industry-specific requirements, such as Yellow Book and employee benefit plans, will comply with additional requirements. We deliver training in multiple formats: local office training, nationally led in-person training, industry-specific training, firmwide webcasts, online self-study programs, and on-demand video clips. We maintain a learning library, which includes nationally and industry-developed training courses for review as needed.

Beginning in early 2020, CohnReznick is utilizing a customized Learning Management System (LMS) designed specifically for the

needs of the firm. Amenities of this design include electronic attendance tracking, streamlined management of compliance-related items and documentation, license monitoring, and mobile access. On-demand content for developing technical and professional skills is also integrated into the system. Overall, this LMS is intended to elevate the learning experience and create efficiencies for our professionals.

Individual performance evaluation, compensation, and advancement

Our professionals participate in formal written annual goal-setting and performance evaluation processes. An individual's performance is evaluated for work quality, client service, technical expertise, people management, productivity, and business growth against the competencies for the person's level. In addition, partners and supervising professionals are encouraged to provide informal periodic feedback to team members. When professionals complete an engagement, or more frequently while they are working on longer engagements, they solicit informal feedback or complete written snapshot evaluations. To support objective performance evaluations, each professional has an assigned performance coach who becomes the liaison between the professional and the supervising professional who provides feedback. Regular performance evaluations give our professionals timely feedback to accelerate their professional development.

Professionals are also expected to embrace our PYRAMID values, which serve as our moral compass for upholding professional responsibilities. The firm directly connects performance evaluations with compensation and promotion. Written performance guidelines for each level outline the necessary qualifications required for advancement.

High-performing senior managers and directors are admitted to the IDT, an intensive program that fosters the personal and professional growth needed to achieve partnership. Audit partner nominees must meet rigorous firm standards related to client service, audit quality, technical expertise, people management, leadership, profitability, and growth. The National Office provides quality evaluations to senior managers and directors before they can be admitted to the IDT and partnership. The final list of promotions for all levels is approved by multiple levels, including the firm's Executive Board.

CohnReznick's partner evaluation and compensation program is tied to the quality of work performed by individual partners. The firm's Executive Board receives a summary of quality evaluations for individual partners, including positive and negative feedback, at least annually from the National Office.

Retention and workplace strategy

Since our people are core to providing high-quality services, retaining our professionals is critical to managing talent. We recruit high-performing professionals who are continuously learning and developing professionally. Our programs are designed to provide our professionals with customizable training and development to help us achieve the best retention results possible. We are constantly exploring new opportunities to energize our people, such as the Workplace Strategy discussed later in this section, and to provide our professionals with a rewarding and enriching experience. Our Total Rewards Program is designed to retain our top talent and is reviewed periodically to ensure we provide a comprehensive reward program to our professionals.

RETENTION OF NON-PARTNERS

	Fiscal 2019		Fiscal 2018		Fiscal 2017	
	Total	Women	Total	Women	Total	Women
Managing directors and directors	88%	95%	89%	93%	93%	100%
Senior managers and managers	82%	83%	85%	86%	88%	90%
Seniors and staff	76%	78%	76%	76%	81%	81%
Total professionals	78%	80%	78%	79%	83%	84%

In 2019, as an additional vehicle to understand our employees' ideas and perceptions, we conducted a comprehensive engagement survey, "CR Voice." The regional/team results were communicated to respective employees, and committees were established to propose solutions to identified needs.

82%

I am proud of working for CohnReznick

I recommend CohnReznick as a great place to work

81%

The firm uses additional tools such as focus groups to obtain employees' feedback and learn about their experiences with different offices and teams. Our goal is to empower our people to continue to engage in a great work environment and provide action plans that meet their needs. We plan to administer the engagement survey every two years. Pulse surveys will be launched periodically to monitor our progress and future needs.

In 2019, we also launched the CohnReznick Workplace Strategy, which focuses on increasing the flexibility of how we work and the way we work. This involves changing some of our policies, advancing our technologies, improving our physical workplace, and reducing our carbon footprint. To enhance this flexibility, we offer two components to all employees: Flexible Work Program options and Alternative Work Schedule arrangements. The Flexible Work Program gives employees temporary flexibility relating to where and when work is completed. As long as the employees' flexibility needs are discussed in advance with their supervisor, no formal approval is required. Alternative Work Schedule arrangements are more permanent and must be approved by OMPs and the People and Culture department before the arrangement commences. Employees can utilize part-time work or modified schedules.

In the Assurance practice, the average overtime hours in 2019 was 113 hours (based on a 2,200-hour year), for an average of 45 hours per work week. Seniors and staff overtime hours decreased by approximately 32% from 92 hours in 2018, as these groups averaged only 63 overtime hours during 2019.

AVERAGE OVERTIME HOURS BY LEVEL (ASSURANCE PRACTICE)

	FYE 2019	FYE 2018	FYE 2017
Partners	305	308	325
Managing directors and directors	184	193	178
Senior managers and managers	139	144	125
Seniors and staff	63	92	73
Total average	**113**	**141**	**124**

AVERAGE TENURE (IN YEARS) AT FIRM — ASSURANCE

	Fiscal 2019	Fiscal 2018	Fiscal 2017
Partners	19	20	19
Directors	12	11	9
Senior managers	11	10	10
Managers	7	7	7
Seniors	5	5	5
Staff	1	1	1

Diversity and inclusion

MISSION STATEMENT

To promote and embrace diversity and inclusion through education, programs, thought leadership, and a culture that leverages our individual unique qualities to drive growth, innovation, and value for our people, our clients, our Firm, our profession, and our communities.

CohnReznick's diversity and inclusion (D&I) efforts are grounded in the belief that our differences make us stronger. D&I is not simply about numbers or events, but about creating and maintaining a culture in which our unique beliefs, backgrounds, talents, and capabilities are encouraged and leveraged to help us learn and grow as a firm.

Our D&I National Council is working to develop and implement a national D&I action plan to address matters such as talent development, supplier diversity, leadership, and accountability. Through our D&I Local Action Councils, we focus on driving change at a local level, with the unique needs of our local communities in mind. We also promote diversity and inclusion through our D&I Mentorship program, which provides resources to all employees seeking additional support and increases awareness of diversity and inclusion opportunities across the firm.

CohnReznick is also dedicated to attracting, retaining, and advancing the skills and careers of our female employees. Through WomenCAN: The Collaborative Advocacy Network for Women, CohnReznick invests in the career growth and long-term development of our women. The WomenCAN program focuses on establishing a broad women's network – a community of support – to provide our women with resources to further their success. Participation in WomenCAN is open to all female employees of the firm, with initiatives and events designed exclusively for women in the business community.

WE'RE ALL IN DIVERSITY&INCLUSION
CohnReznick

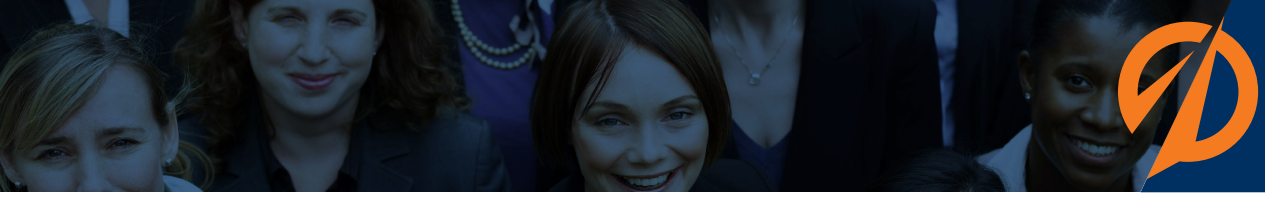
Our efforts to support women have been recognized by the Accounting & Financial Women's Alliance. In 2019, CohnReznick was named to the Accounting MOVE Project's Best Accounting Firms for Women List for the sixth consecutive year. We were recognized for our achievements in staying ahead of national pay equity trends, proactively communicating diversity and inclusion policies firmwide, and advocating for gender-diverse slates of speakers at events in which the firm participates.

Maintaining an inclusive environment for everyone – regardless of sexual orientation and gender identity or expression – makes us a better company. CohnReznick's Pride initiative aims to foster a work environment where lesbian, gay, bisexual, transgender, and queer (LGBTQ+) employees can bring their authentic selves to work, feel a sense of belonging, and successfully advance their careers at our firm.

PRIDE

CohnReznick WomenCAN

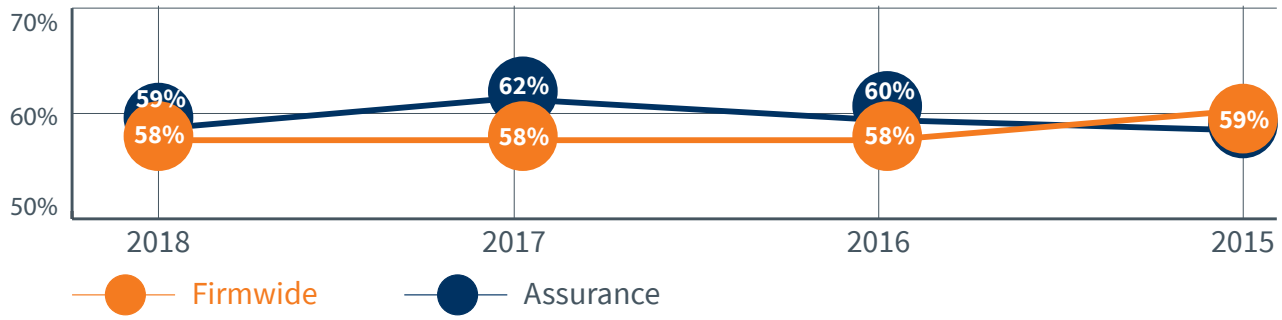
2019 Best Firm
MOVE PROJECT



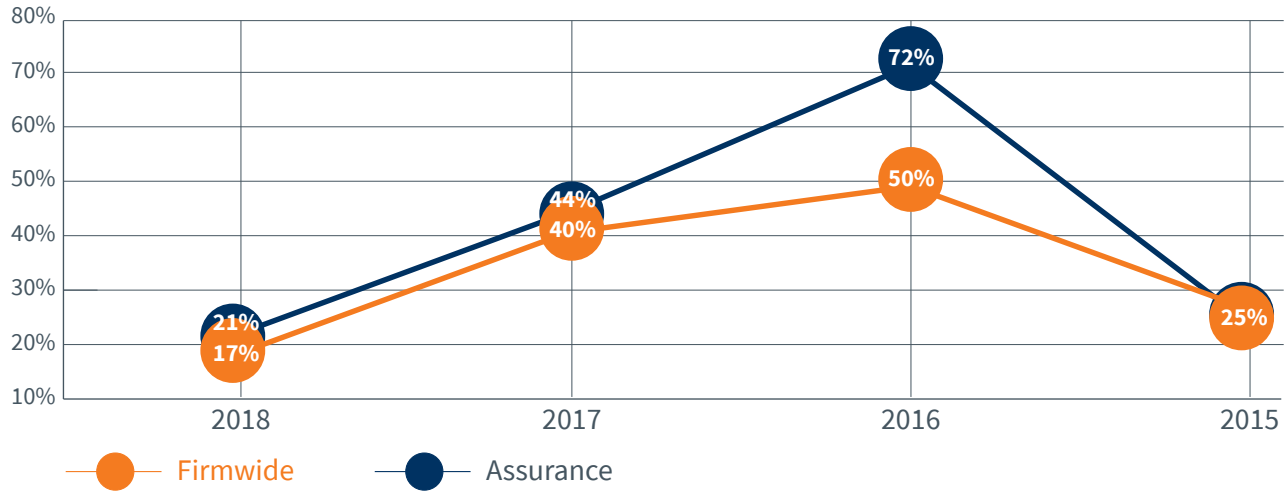
WOMEN AS PERCENT OF HEADCOUNT

	Fiscal 2019	Fiscal 2018	Fiscal 2017
Partners	22%	21%	20%
Directors	35%	39%	33%
Senior managers and managers	44%	47%	48%
Seniors and staff	45%	44%	46%
Total	42%	42%	43%

NEW HIRES — % OF WOMEN AND/OR MINORITIES



NEW PARTNERS — % OF WOMEN AND/OR MINORITIES



CohnReznick's Pride aims to bring our LGBTQ+ employees and allies together for networking, mentoring, and sharing information across our 19 U.S. offices (plus our international locations). The National Pride Council and local office representatives organize programs and events, such as pride celebrations, community sponsorships, webinars, and constructive conversations. The National Pride Council also supports and sponsors CohnReznick team members' participation in external LGBTQ+ organizations and events, including the AICPA's LGBTQ+ Networking initiative, Out & Equal conferences, and local pride events.

To nurture an inclusive culture, we raise awareness of diversity through activities ranging from learning sessions on issues impacting the LGBTQ+ community to participation in events supporting Asian/Pacific American Heritage Month, National Hispanic Heritage Month, Black History Month, and Women's History Month.

CLIENT ACCEPTANCE AND CONTINUANCE

We evaluate both current and prospective clients to determine if we should serve the clients and, if so, what related services we could provide. Our client acceptance and retention policies and procedures allow us to serve clients only if we have determined that we have the requisite competence and capabilities, including adequate time and resources, to perform a high-quality engagement. Our policies and procedures are designed for our partners and professionals to accept or retain clients consistently across the firm.

CohnReznick uses an electronic tool, CXP, to identify and track potential opportunities to provide audit and non-audit services. CXP retains the assessment regarding whether to accept an engagement, as well as approvals from firm leadership and a review by our designated independence and ethics experts, if applicable.

When a new opportunity arises, a partner and the professional who identified the new opportunity complete a questionnaire pre-populated in CXP to evaluate if the firm should pursue and accept the engagement. In addition, we prepare and gather certain documents and client-specific information, including:

- A draft engagement letter
- Background data including financial information regarding the entity and its operations
- Risk questions
- Identification of client affiliates, if any
- An evaluation of possible independence problems or conflicts of interest
- An assessment of the firm's competence, capabilities, and resources to perform a high-quality engagement
- The results of communications with the entity's prior accountants, estimates of firm personnel resources needed and budget, and a background investigation report of the entity and involved senior management, prepared by a third party, if applicable.

Once all required documents and information are gathered, designated firm leaders must approve the acceptance of the engagement. Our designated leaders for client acceptance approvals are representatives of office, regional, and firm leadership: office managing partners, professional practice leaders (see page 4), and the national director of the regional professional practice group. The level of required approvals depends on the nature of the

entity and the services to be provided, as well as the perceived risk profile of current and past relationships with the entity.

The selection of key engagement team members, such as the assurance engagement partner and the engagement quality control reviewer, is critical to high-quality assurance services. These team members are selected based on the risk and complexity of the entity, as well as the team members' past and current industry expertise and experience.

Our client acceptance process for public company audit engagements also includes a rigorous three-phase process:

1. An initial screening by the managing partner of Assurance and/or director of SEC Services
2. A formal SEC vetting process using another electronic tracking system
3. A formal client acceptance process using the CXP system described above

We evaluate an existing client for continuance at least annually or when specific issues are identified through the course of the relationship, such as changes to the client's operations or leadership. Each engagement team completes the assessment regarding whether the firm should continue providing services to an entity in the engagement work paper file. These decisions require approval from office leadership and, in certain cases, may require additional firm leadership approval.

ENGAGEMENT PERFORMANCE

Audit quality is our top priority and the core of our strategy. The firm maintains high standards of quality for our partners and professionals that exceed applicable professional standards and regulatory requirements. We provide our partners and professionals with tools, manuals, practice aids, and dedicated specialists and strongly promote our collaborative culture to assist them in meeting and exceeding our standards of quality in each engagement. Our policies and procedures provide consistent and multilevel quality support in engagement performance for all aspects of engagement design and execution, including:

- Quality Network
- Audit methodology and publications
- Engagement supervision and review
- Consultations
- Engagement quality control review/reviewer (the EQCR)
- Engagement quality reviewer (EQR) and partner rotation — public company audit engagements

Quality Network

We use a multidimensional strategy to monitor our system of quality control and support execution of the CohnReznick Way of providing high-quality assurance services in each assurance engagement. The firm maintains a "Quality Network," which consists of the National Assurance group, the Regional Professional Practice group (RPPG), and professional practice leaders (PPLs). The Quality Network operates and monitors the firm's quality control system and incorporates innovation into our policies and procedures to lead the firm toward the Audit of the Future. Partners, directors, and senior managers in the Quality Network have extensive technical experience and knowledge. They also have the authority to provide oversight and leadership over the quality of the Assurance practice and to hold each engagement team accountable for adhering to professional standards and the firm's policies and procedures.

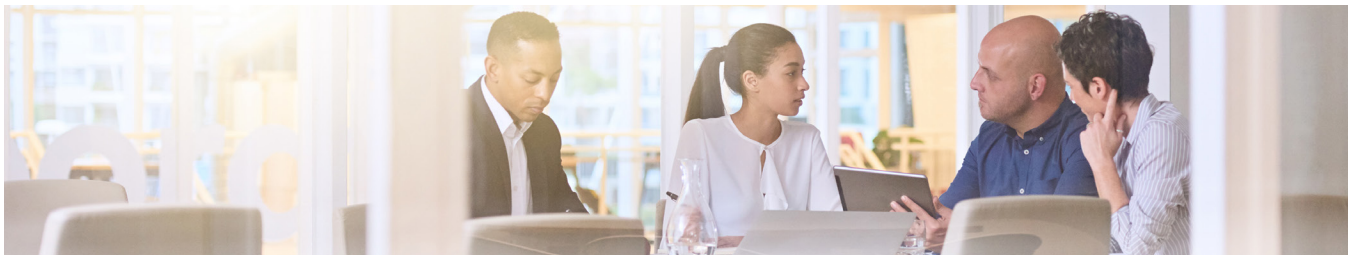
In 2019 our National Assurance group included a total of 17 partners and directors and five senior managers who are dedicated full-time professionals with an average of 27 years of experience. While the National Office oversees technical matters and initiatives at a national level, the RPPG professionals are each assigned to one of three regions, liaise with 20 industry subgroups, and are represented on one or more of 60 accounting and audit topic teams (see page 21). Our PPLs included 11 partners representing one or more of the designated offices. They directly provide assurance services as engagement partners and assist in the implementation of National Office initiatives and quality control monitoring of the designated offices.

National Assurance group

The managing partner of Assurance leads our National Assurance group, which consists of the National Office group, the Audit Quality group, the National Accounting group, and inspections. The National Assurance group's responsibilities include consultation on and publication of content related to technical accounting, auditing, financial reporting, and quality reviews, as well as independence-related matters, development and maintenance of tools, practice aids, manuals, training programs, and policies and procedures. This group also conducts in-flight reviews for public company engagements, coordinates with and provides quality assurance for our office in India, monitors internal inspections and quality control systems, designs and executes audit automation projects, and, most importantly, guides and works collaboratively with our Office Champions (see page 26) to move us forward with the Audit of the Future.

Regional Professional Practice group (RPPG)

As part of our National Assurance group, RPPG professionals conduct quality reviews as EQCRs of assigned engagements, serve as designated subject matter experts within the accounting and audit topic teams to provide accounting and audit consultation, assist with assignments and evaluation of tier ratings (see page 21), liaise with designated industry subgroups to provide quality control of the industry, develop technical publications, and present designated technical presentations, such as industry niche training.



Professional practice leaders (PPLs)

PPLs are an integral component of the Assurance practice and the firm's quality control system, connecting designated local offices and the National Assurance group and risk management functions. As part of the Quality Network, these leaders report to National Assurance and assist in communicating the tone at the top, monitoring the firm's quality control system, implementing the firm's initiatives within their offices, evaluating the competency and technical capabilities of those partners, and providing feedback from the local offices in the areas of client acceptance and continuance, internal inspections, and accounting and auditing consultations.

Audit methodology and publications

Our audit methodology is anchored in a risk-based approach, focusing on the financial statement accounts and disclosures that have a greater likelihood of being materially misstated and varying the nature, timing, and extent of procedures performed based on our risk assessment. In other words, we perform more-extensive procedures in higher-risk accounts and disclosures, and less-extensive procedures in lower-risk accounts and disclosures. Consistent with what is promulgated by various standard-setters, our methodology emphasizes effective planning, performance, documentation, and review of our work. For each audit, we develop an engagement-specific audit strategy based on our understanding of the entity and its environment, as well as on the identification and assessment of risks. We consider entity-specific facts and circumstances in determining the nature, timing, and extent of procedures to be performed and updated as necessary throughout the audit process as we obtain more information.

Our audit processes use innovative technology solutions to increase audit effectiveness and to enhance quality. We continuously monitor regulatory changes, emerging accounting and auditing issues, and internal and external inspection results and use that information to refine our methodology. Our National Office, in some cases together with the RPPG, issues national accounting and audit practice letters (NAAPLs) to communicate key topics to the practice, including implementation guidance for new auditing and accounting standards, new firm policies and procedures, updates to the firm's audit methodology, and updates on recent standard-setter activities. The topics presented in the NAAPLs are also discussed during our monthly accounting and risk webcasts for partners through managers, hosted by the managing partner of Assurance. Our audit methodology, policies, procedures, and publications issued are the centerpiece of how we perform assurance services – the CohnReznick Way.

Engagement supervision and review

In assurance engagements, the engagement partner or engagement director with signing authority takes responsibility for the direction, supervision, and performance of the engagement, overseeing compliance with professional standards and applicable legal and regulatory requirements and adherence to the firm's policies and procedures. The engagement partner or engagement director also takes responsibility for review of the work performed in accordance with the firm's review policies and procedures and, prior to issuing the report, determines that sufficient appropriate evidence has been obtained to support the conclusions reached and to issue the report. Generally, a senior manager, manager, or senior performs detail-level reviews on all engagement files, while an engagement partner performs a second-level review to assess the sufficiency of work performed in totality. An EQCR is assigned to each assurance engagement to provide additional review (see page 21).

The firm's policies stipulate the roles and responsibilities for each engagement team member in performing, supervising, and reviewing the audit. In addition, our policy describes a list of work papers that must be reviewed by an engagement partner before the report is issued, based on the type of assurance service. We also have guidelines regarding the percent of engagement partner and manager time over total engagement hours, as well as a percent of engagement partner and manager hours spent in planning, fieldwork, reporting, and post-issuance. These policies support sufficient supervision and review at each engagement level.

Consultations

We encourage our partners and professionals to consult, seek guidance, and share knowledge and expertise throughout the firm. To promote this collaborative culture, we have established accounting and audit topic (AAT) teams to cover 60 major subtopics, such as revenue recognition and auditing estimates. Partners, directors, and senior managers in the National Office, as well as selected industry leaders, represent one or more of the AAT subtopics teams who are the designated subject matter experts to guide engagement teams in respective technical matters. We also have a mandatory formal consultation policy for specific, complex, and unusual accounting and auditing matters requiring engagement teams to seek guidance from the National Office or a respective office PPL. Topics with pervasive impact on our practice or certain industries are elevated to the National Office.

If the engagement partner and the EQCR have differing opinions within the engagement team, or with those consulted within or outside the firm, that difference is brought to the attention of the managing partner of Assurance. The managing partner of Assurance – with the assistance of other practitioners or regulatory entities if desired – resolves the dispute and sets the proper course of action. If the disagreement is still not resolved, the matter is elevated to the Risk Committee for resolution. The conclusion to resolve the disagreement and the implementation are documented. The firm will not release the report until any differences of opinion are resolved. In addition, any party to the consultation/difference of opinion who disagrees with the conclusion may document that disagreement.

Engagement quality control review/ reviewer (EQCR)

At CohnReznick, every assurance engagement is subject to an independent EQCR, in addition to supervision and review by an engagement partner. This review is performed by the RPPG or a partner, a director, or the PPL's pre-approved designee who has the necessary competence and authority. Based on the risk, nature, and complexity of the engagement, the industry, and the regulatory requirements, we assign a level – Tier I, Tier II, or Tier III – to each assurance engagement. The assigned tier level determines the nature, timing, and extent of the review. For example, for a Tier I engagement, we require the most comprehensive review by a pre-assigned reviewer. The Tier I review is, in effect, the equivalent of a concurring review.

The EQCR not only performs detailed reviews of audit work papers related to significant areas and drafted financial statements, but also participates in planning and other critical discussions throughout the audit. The national director of the Regional Professional Practice group (ND-RPPG) and/or the PPL assigned to each office approves the original tier assignments for all engagements at client acceptance. Subsequent changes in the assigned tiers and changes in the reviewers must be approved by the ND-RPPG and/or the PPL. PPLs evaluate assigned tier ratings for each engagement within the assigned offices annually.

Engagement quality reviewer (EQR) and partner rotation — public company audit engagements

As required by PCAOB Auditing Standard No. 1220, "Engagement Quality Review," an independent EQR is also assigned to each public company engagement. Through review of audit work papers and participation in various discussions, the EQR objectively evaluates significant judgments and conclusions reached by engagement teams before we issue our audit reports. In assigning an engagement partner and the EQR, we consider their industry expertise, competency, availability to perform quality work, and partner rotation requirements. Our engagement partners and the EQRs assigned to our public clients have extensive experience in serving such clients. Our audit engagement partners each lead an average of two to three SEC audit engagements.

The national director of SEC Services and/or the managing partner of Assurance assigns the EQR and approves engagement partners during our client acceptance and continuance processes. In addition, the managing partner of Assurance approves all of the EQR and partner assignments and rotations for our public client audit engagements annually.

Both the EQR and partner rotation add fresh perspectives and increase objectivity to serve our public clients. In 2019, we established an electronic database to comply with the requirements for monitoring and planning partner rotations for lead engagement partner, any other engagement partner, and the EQR, in accordance with SEC standards. This database facilitates a monthly review of partner rotations by the Audit Quality group and an annual approval of partner assignments and rotations by the managing partner of Assurance.

MONITORING

The foundation of our quality control system is the continuous monitoring of each of its elements. The effectiveness of our quality control system depends on a monitoring system that is ongoing, timely, and well-developed. We confirm and reinforce the direction of our monitoring system using our policies, procedures, and programs to monitor our Assurance practice, including our continuous improvement initiatives (CII) and root cause analysis (RCA), internal inspections, and SEC in-flight review program; and external inspections such as the AICPA peer review and the PCAOB inspection.

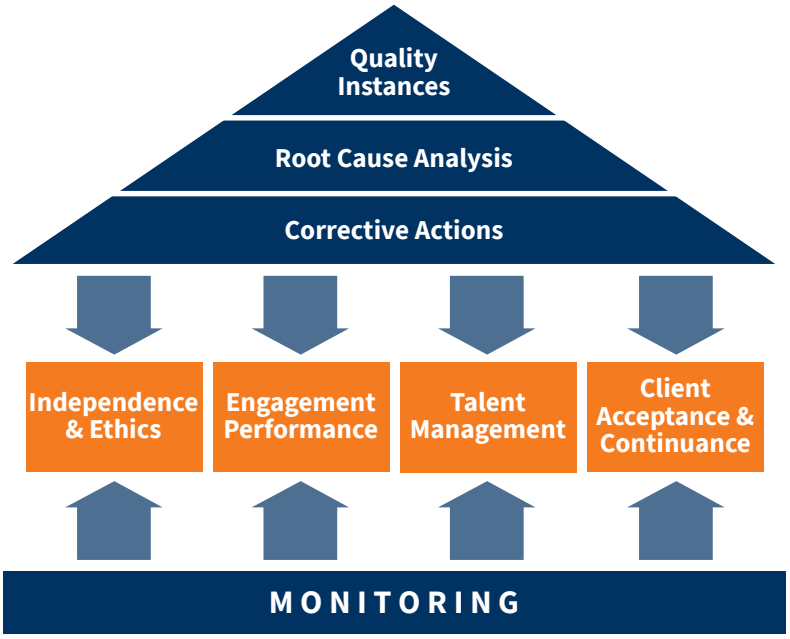
Continuous improvement initiatives and root cause analysis

Our CII process is the core of our monitoring system. CII is the comprehensive, ongoing, year-round program we use to continuously identify and monitor each of the four elements of our quality control system, and to make timely enhancements. Our programs, such as pre-issuance reviews, internal inspections, SEC in-flight reviews, review of restatements, and consultations, as well as external inspections, may reveal possible breakdowns in the quality control system at an engagement, industry, or firmwide level. Our National Office partners and professionals meet at least weekly, and with other Quality Network personnel at least biweekly, to formally identify, discuss, and evaluate circumstances that warrant further re-evaluation and enhancement of our quality control system.

CII evaluations consider whether:

- Our messaging, policies, procedures, and practices are relevant and adequate
- Our guidance, materials, tools, and practice aids are appropriate and comply with the firm's policies and procedures, as well as professional standards
- Our learning and development activities, as well as engagement staffing, are relevant, sufficient, and effective
- Our recent corrective actions, such as new policies, procedures, or programs, are effective

COHNREZNICK'S CONTINUOUS IMPROVEMENT INITIATIVES FRAMEWORK



COHNREZNICK'S MONITORING FRAMEWORK

Once our National Office identifies a quality instance or instances for further investigation, we conduct an RCA. This analysis includes interviews and reviews of related documents and may be aggregated into a theme, an industry, or a firmwide analysis as necessary. Once the RCA is completed, the National Office recommends and implements possible corrective actions, which may target the quality instance or individuals involved and possibly an industry or firmwide program. We also evaluate the possible impact on elements of our quality control system: our independence and ethics policies, client acceptance and continuance policies and procedures, engagement performance system, talent management system, and other elements of our monitoring system. We select corrective actions that are measurable and multifaceted, and their effectiveness is subject to our internal monitoring systems, such as pre-issuance reviews, internal inspections, and in-flight reviews.

For our SEC engagement practice, we have RCA policies and procedures that define instances that trigger formal and documented RCAs. Procedures include the review and approval of the RCA documents by the managing partner of Assurance.

As part of the Audit Quality Matters initiative (see page 7) and Audit of the Future (see page 26), the firm is in the process of identifying and evaluating partners and professionals and engagements or industries whose processes or behaviors contribute to audit quality. These positive processes or behaviors will be shared with other partners and professionals to promote our culture of "Audit Quality Matters."

Internal inspections

One of the most critical elements of our monitoring system is our in-house inspection (IHI) program, a year-round continuous process that is designed to identify areas where we can improve. The following are program highlights:

- **IHI inspectors –** Managers through partners with proven technical ability and industry expertise are logged in our inspector database. The database enables us to utilize experienced inspectors for our inspections. In the most recent inspection period, for the year ended June 30, 2018, 95% of our inspectors had previous inspection experience. Mentors are assigned to all new inspectors, which represent 5% of our inspector pool, to maintain the integrity and consistency of our IHI program.
- **Training and support –** Each inspector completes the AICPA peer review checklists while conducting inspections. We also provide training and ongoing support to our inspectors through webcasts and conference calls.
- **Team captain –** The director of inspections leads our IHI program with assistance from the PPLs to contribute to a consistent process throughout the entire IHI program. For a significant portion of our IHI program, the director of inspections is the team captain, who identifies and evaluates potential issues and approves appropriate remediation. When the director of inspections is not the team captain, this individual still reviews all checklists, identifying and evaluating potential issues and approving remediation.
- **Frequencies –** Our current firm policy requires inspecting at least one engagement from each partner at least every other year. Annually, we inspect all newly promoted partners in their first year of partnership and directors with signing authority.
- **Coverage –** We select engagements across all offices, industries, and types of assurance services that are representative of our Assurance practice. We also incorporate unpredictability into our inspections process by utilizing a risk-based approach in making our selections. During the most recent IHI period, for the year ended June 30, 2018, we inspected 153 assurance engagements, representing 4.1% of the firm's total assurance hours.

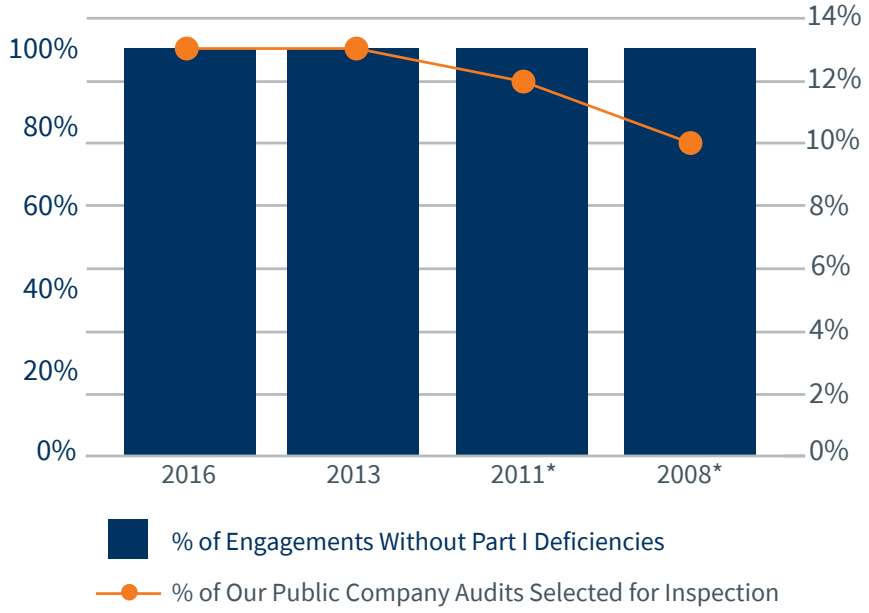
- **Rating system –** We rate each engagement selected for the IHI based on a five-scale rating system. Recommendations and findings are communicated to each engagement team when the inspection is completed and remediation efforts, if any, are undertaken.
- **Results, evaluation, and communication –** We communicate the results and the findings from each engagement to local, regional, industry, and national leaders. On a biweekly basis, the director of inspections communicates the results and findings to the Audit Quality group so that trends and areas of improvement can be identified and addressed in a timely way. Observations, findings, and remediation generated from IHI are evaluated for trends and root causes, and summaries are periodically communicated to all professionals. Remediation may include issuance of clarified or additional guidance or training, changes in audit processes and procedures, changes in staffing and additions of appropriate resources, and enhancement of existing tools or development of new tools. In addition, the director of inspections provides quality evaluation of engagement partners to the ND-RPPG.

PCAOB inspection

The PCAOB oversees the auditors of public companies to protect the interests of investors and the public and conducts periodic inspections of registered public accounting firms. We are registered with the PCAOB, as we have public company and broker-dealer clients and are subject to the PCAOB's tri-annual inspection. The PCAOB's inspection process includes evaluation of the firm's quality control systems and review of engagement work paper files on a sample basis selected by the PCAOB. After its inspection, the PCAOB publishes an inspection report of the inspected firm on its website. This report includes two parts: Part I, which is made public and includes specific findings related to the inspected engagements, and Part II, which remains private for 12 months after issuance and contains observations of a firm's overall quality-control processes and/or comments on matters the PCAOB identified that it believes to be pervasive and warrant special attention.

The PCAOB conducted a field inspection of our firm from July 15, 2019, to July 26, 2019. The report is still pending as of the date of this publication. The most recently completed PCAOB inspection occurred from September 12, 2016, to September 23, 2016, and the PCAOB issued its inspection report in February 2017. Thirteen percent of our public client engagements (nine of a total of 67) were inspected, and 56% (five of a total of nine) of the engagements inspected opined on the operating effectiveness of internal control over financial reporting. The inspected engagements covered 38% (nine of a total of 24) of our public company audit partners. While the PCAOB cautions that its inspection reports are not intended to serve as an overall quality rating of a firm or audits performed by the firm, we continue to look for ways to strengthen the firm's system of quality control and the monitoring of its effectiveness.

PCAOB INSPECTION COMPLIANCE RATE



**Years prior to J.H. Cohn and Reznick Group combination results are shown on a combined basis.*

In-flight review program – public company engagements

Through our in-flight review program, we monitor the quality of audit work performed and provide real-time coaching tailored to each engagement before we issue our audit report. In-flight reviews are conducted by dedicated National Office resources who have extensive knowledge and expertise in reviewing public company audit engagements and are assigned to each of our public company engagements. In-flight reviewers assist engagement teams in monitoring compliance with an audit performed under PCAOB auditing standards through timely discussions of significant audit matters and testing approaches and reviews of audit work papers throughout the lifecycle of engagement activities. We utilize in-flight review checklists to support consistent review. Our in-flight review program is annually re-evaluated, considering the prior year's in-flight review results, as well as review of PCAOB inspection reports issued for other public accounting firms. Observations noted in our in-flight reviews are aggregated and evaluated, including root cause analysis of the observations, and we formally communicate results and observations with public company audit engagement teams throughout the year.

AICPA peer review

We participate in the AICPA Peer Review Program. Through this program, we are inspected by another accounting firm once every three years and receive a rating of pass, pass with deficiency(ies), or fail. The scope of the review includes the system of quality control for the accounting and assurance practice of the firm, applicable to engagements that are not subject to PCAOB permanent inspection. Engagements selected for review included those performed under Government Auditing Standards, including compliance audits under the Single Audit Act; audits of employee benefit plans; and examinations of service organizations. Baker Tilly Virchow Krause conducted the last inspection, issuing a report with a pass rating in December 2017.

Other external inspections

The Employee Benefits Security Administration of the U.S. Department of Labor (DOL) administers the Audit Quality Inspection Program, addressing audits of plans subject to the reporting and disclosure requirements of the Employee Retirement Income Security Act of 1974. Because our firm performs more than 200 plan audits annually, we are subject to the "large-firm" inspection approach, including a review of the firm's policies and procedures and inspection of select employee benefit plan audit engagements. We received a satisfactory rating from the DOL's most recent inspection, completed in 2017. We are also inspected by regulatory bodies such as the U.S. Department of Housing and Urban Development and the Cayman Islands Institute of Professional Accountants. The most recent inspections by these agencies were completed in 2017, and we received a satisfactory rating from both.

AUDIT OF THE FUTURE

Technological change continues as artificial intelligence, machine learning, drones, blockchain, and other emerging technologies materialize and evolve. We believe the use of these technologies is still in the early stages for many organizations, but we expect these new technologies will have a significant impact on auditors and accountants. We view the challenges that will arise from this evolving technological landscape as opportunities because we believe we can strategically harness them for the benefit of our people, our clients, and the capital markets.

The innovative thinking and grit needed to harness change are at the heart of our culture and part of our purpose as an organization. We are building on those instincts by, among other initiatives, making thoughtful investments aimed at maximizing our efficiency and improving the quality of our audits. We actively identify, test, and, when appropriate, implement tools and processes that help us achieve these aims. To support our people in this important endeavor, we have created the Audit of the Future Champions Committee, a network that powers the continuous feedback loop and provides the local office presence and support we believe is necessary to succeed in this effort.

New audit methodology and audit software solution

We are transitioning to a new audit methodology and software solution that are the foundation upon which we are building our Audit of the Future. We adopted a new audit methodology to improve the efficacy and efficiency of our audits, and the new audit software is designed to facilitate the execution of the new methodology. Collectively, the new methodology and software solution are integrated, better equipping our professionals to meet the firm's risk management objectives. Further, they will enhance the ability of our assurance professionals to tailor their procedures to focus on significant areas, and align well with the CohnReznick Workplace Strategy (see page 15) because of their ability to enhance our flexibility with respect to the way in which we work.

Office Champions

The Office Champions are a group of emerging leaders from across the firm with varying industries and levels of experience. They are innovative people who are and want to be at the forefront of technological advancement. Office Champions are members of the Audit of the Future Champions Committee, an advisory committee that provides recommendations and other feedback on matters pertaining to our implementation of the Audit of the Future and acts as a liaison between our local offices and National Assurance.

Photo: Inaugural Office Champions' meeting, held in October 2019 in Dallas, Texas.

Office Champions are integral to our Audit of the Future implementation efforts because they are the force that powers the continuous feedback loop between local offices and National Assurance. In addition to serving as liaisons, Office Champions work side by side with local office professionals. They are, therefore, uniquely positioned to serve as intermediaries for multidimensional communication and to provide value-added contributions to the firm's implementation efforts. We believe that ongoing, effective, and multidimensional communication between local and national constituents is imperative to the execution of our collaborative implementation approach.

Innovative audit tools

Innovative thinking is at the heart of our culture and helps define our sense of purpose. We encourage our people to think outside of their comfort zone, identify opportunities, and act on them. This is an inclusive process, and we invite all our people to be fully vested in our efforts to constantly improve and streamline our processes.

We develop and deploy proprietary automation tools in our audits. For example, we use internally developed tools that leverage standard data to execute analytically based audits in certain industries. In addition, we have applied robotic process automation (RPA) to certain specialized compliance audits. RPA has also been used to automatically apply advanced data analytics to large data sets and to facilitate the visualization of the results. Further, we have developed a proprietary tool that facilitates the performance of substantive procedures by automating and streamlining certain accounting calculations and the related financial statement disclosures. Each of these are examples of the collaborative efforts of our professionals to capitalize on an internally sourced idea for innovation. We also use document extraction software that uses machine learning to abstract legal documents. Our goal is to automate routine, objective procedures using technology so that our people can focus on areas that require professional judgment and expertise. We believe that our expanding use of technology will better enable us to tailor and customize our client service, which will drive higher quality.

Dynamic Audit Solution (DAS)

We are collaborating with some of the nation's largest accounting firms, the AICPA, CPA.com, and CaseWare International to develop a transformational auditing methodology supported by a state-of-the-art technology platform. The Dynamic Audit Solution (DAS) will be a flexible, scalable platform that uses the power of automation, data analytics, and updated methodologies to transform auditing.

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ABOUT COHNREZNICK

As a leading advisory, assurance, and tax firm, CohnReznick helps forward-thinking organizations achieve their vision by optimizing performance, maximizing value, and managing risk. Clients benefit from the right team with the right capabilities; proven processes customized to their individual needs; and leaders with vital industry knowledge and relationships. Headquartered in New York, NY with offices nationwide, the firm serves organizations around the world through its global subsidiaries and membership in Nexia International. For more information, visit www.cohnreznick.com.

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